

Town of Milton, Delaware

Financial Statements and Independent Auditors' Report

September 30, 2010

Report Issued: July 25, 2012

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**STATE OF DELAWARE
OFFICE OF AUDITOR OF ACCOUNTS**

**R. THOMAS WAGNER, JR., CFE, CGFM, CICA
AUDITOR OF ACCOUNTS**

**PHONE: 302-739-4241
FAX: 302-739-4217**

To the Town Council of the Town of Milton, Delaware:

We were engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Milton, Delaware (the Town), as of and for the year ended September 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management.

The Town comprehensively lacked internal controls and formal policies and procedures for Town operations during the year ended September 30, 2010. The Town did not maintain appropriate documentation for fiscal and operational processes and, without a thorough understanding of the Town's accounting system, could not produce reliable financial data. In addition, the Town's suspense account, which exceeded \$1.3 million at year-end, increases each year and the Town's management is unable to determine the contents of the account.

Since the Town could not demonstrate the reliability of its financial statements and we were not able to apply other auditing procedures to satisfy ourselves as to the account balances, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

Sincerely,

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts

July 18, 2012



STATE OF DELAWARE
OFFICE OF AUDITOR OF ACCOUNTS

R. THOMAS WAGNER, JR., CFE, CGFM, CICA
AUDITOR OF ACCOUNTS

PHONE: 302-739-4241
FAX: 302-739-4217

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Town Council
The Town of Milton, Delaware

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Milton, Delaware (the Town), as of and for the fiscal year ended September 30, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated July 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, we identified a deficiency in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and recommendations to be a material weaknesses (Reference Number: 2010-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Town Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts

July 18, 2012

Town of Milton, Delaware
Management Discussion and Analysis
September 30, 2010

This section of the Town's Financial Report presents management's overview and analysis of the Town's financial performance for the fiscal year ended September 30, 2010. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets of the Town exceeded its liabilities at September 30, 2010, by \$4,505,090. Of this amount, \$2,709,755 represents net assets which are invested in capital assets.
- The Town's total net assets decreased by \$879,996, which is a decrease of 16.3% over the prior year.
- The Town issued no new debt during this period.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements (The notes to the financial statements also contain more detail). The financial statements of the Town report information using the modified cash basis of accounting for governmental funds and the accrual basis of accounting for Proprietary Funds and the Entity-wide statements. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. The Statement of Activities presents information showing how the Town's net assets changed during the fiscal year.

The financial statements can be found on Pages 8 through 16 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided within financial statements.

Financial Analysis

For the year ended September 30, 2010, assets exceeded liabilities by \$4,505,090. The Town is a capital intensive entity, and 60% of the net assets are invested in capital assets. The following is a summary of the Town's net assets.

Town of Milton, Delaware
Management Discussion and Analysis
September 30, 2010

Summary Statement of Net Assets

	<u>2010</u>		<u>2009</u>		<u>Change 2009 to 2010</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Assets						
Current Assets	\$1,483,174	\$803,686	\$2,302,517	\$645,797	\$(819,343)	\$157,889
Capital Assets	<u>1,611,051</u>	<u>1,613,694</u>	<u>2,035,216</u>	<u>1,673,166</u>	<u>(424,165)</u>	<u>(59,472)</u>
Total Assets	<u>\$3,094,225</u>	<u>\$2,417,380</u>	<u>\$4,337,733</u>	<u>\$2,318,963</u>	<u>\$(1,243,508)</u>	<u>\$98,417</u>
Liabilities						
Current Liabilities	\$271,050	\$37,224	\$503,550	\$66,588	\$232,500	\$29,364
Non-current Liabilities	<u>160,366</u>	<u>537,875</u>	<u>154,891</u>	<u>546,581</u>	<u>(5,475)</u>	<u>8,706</u>
Total Liabilities	<u>\$431,416</u>	<u>\$575,099</u>	<u>\$658,441</u>	<u>\$613,169</u>	<u>\$227,025</u>	<u>\$38,070</u>
Net Assets						
Invested in capital assets, net of related debt	\$1,611,051	\$1,098,704	\$2,035,216	\$1,126,585	\$(424,165)	\$(27,881)
Unrestricted	<u>1,051,758</u>	<u>743,577</u>	<u>1,644,076</u>	<u>579,209</u>	<u>(592,318)</u>	<u>164,368</u>
Total Net Assets	<u>\$2,662,809</u>	<u>\$1,842,281</u>	<u>\$3,679,292</u>	<u>\$1,705,794</u>	<u>\$(1,016,483)</u>	<u>\$136,487</u>

The Town's net assets decreased by \$1,016,483 in 2010. The following is a summary Statement of Activities which show how the decrease in net assets occurred.

Summary Statement of Activities

	<u>2010</u>		<u>2009</u>		<u>Change 2009 to 2010</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Revenues						
Property Taxes	\$855,363	\$0	\$819,413	\$0	\$35,950	\$0
Charges for Services	286,082	731,285	384,772	742,624	(98,690)	(11,339)
Operating Grants and Contributions	138,096	0	848,062	0	(709,966)	0
Interest and Investment Earnings	71,006	240	80,605	2,341	(9,599)	(2,101)
Miscellaneous Revenues	<u>65,262</u>	<u>0</u>	<u>45,100</u>	<u>0</u>	<u>20,162</u>	<u>0</u>
Total Revenues	1,415,809	731,525	2,177,952	744,965	(762,143)	(13,440)
Expenses						
General Government	693,694	0	830,359	0	136,665	0
Streets Department	267,845	0	117,175	0	(150,670)	0
Police Department	828,542	0	878,070	0	49,528	0
Parks and Recreation	87,668	0	746,985	0	659,317	0
Codes Department	167,966	0	241,437	0	73,471	0
Other Expenditures	27,932	0	5,000	0	(22,932)	0
Trash Collection	0	186,886	0	181,780	0	(5,106)
Water System	<u>0</u>	<u>456,311</u>	<u>0</u>	<u>492,160</u>	<u>0</u>	<u>35,849</u>
Total Expenses	<u>2,073,647</u>	<u>643,197</u>	<u>2,819,026</u>	<u>673,940</u>	<u>745,379</u>	<u>30,743</u>
Change in Net Assets before transfers and prior period adjustments	(657,838)	88,328	(641,074)	71,025	(16,764)	17,303
Transfers	0	0	116,649	(116,649)	(116,649)	116,649
Prior Period Adjustment	(358,645)	48,159	0	0	(358,645)	48,159
Net Assets – Beginning of Year	<u>3,679,292</u>	<u>1,705,794</u>	<u>4,203,717</u>	<u>1,751,418</u>	<u>(524,425)</u>	<u>(45,624)</u>
Net Assets – End of Year	<u>\$2,662,809</u>	<u>\$1,842,281</u>	<u>\$3,679,292</u>	<u>\$1,705,794</u>	<u>\$(1,016,483)</u>	<u>\$136,487</u>

Town of Milton, Delaware
Management Discussion and Analysis
September 30, 2010

Expenses

Operating expenses are most directly affected by weather conditions, road maintenance, road improvement projects and police activity.

The following is a summary of expenses, and net expenses, by function.

Function	2010 Expense	2010 Net	2009 Expense	2009 Net
General Government	\$693,694	\$(551,591)	\$830,359	(\$645,738)
Streets Department	267,845	(267,845)	117,175	(51,611)
Police Department	828,542	(752,577)	878,070	(745,603)
Parks and Recreation	87,668	(19,635)	746,985	(111,659)
Codes Department	167,966	(29,889)	241,437	(241,437)
Other Expenditures	27,932	(27,932)	5,000	(5,000)
Trash Collection	186,886	13,758	181,780	9,470
Water System	<u>456,311</u>	<u>74,330</u>	<u>492,160</u>	<u>59,214</u>
Total	<u>\$2,716,844</u>	<u>\$(1,561,381)</u>	<u>\$3,492,966</u>	<u>(\$1,732,364)</u>

Revenues

The Town's revenues consist of program and general revenues. Program revenues consist of charges for services, operating grants and contributions and capital grants and contributions. General revenues consist of property taxes, interest and investment earnings, and miscellaneous revenues. The following is a summary of revenues for the Town.

	<u>2010</u>	<u>2009</u>
Charges for services	\$1,017,367	\$912,540
Operating grants and contributions	138,096	212,736
Capital grants and contributions	0	635,326
General revenues	<u>991,871</u>	<u>1,162,315</u>
Total	<u>\$2,147,334</u>	<u>\$2,922,917</u>

Charges for services include fees charged to residents for building permits. Operating grants and contributions include grants received from other governmental entities. General revenues include amounts donated to the Town for the operation of special events. The largest source of tax revenue is derived from the collection of property taxes. Those collections were up by 4.4%, totaling \$855,363, an increase of \$35,950. Overall revenues for the General Fund were down by 32.4%, a decrease of \$674,176. A major factor in this decrease was a decrease in capital grants and contributions of \$635,326, which is due to a grant received in 2009 for Rails to Trails Capital Costs.

Town of Milton, Delaware
Management Discussion and Analysis
September 30, 2010

Request for Information

This financial report is designed to provide a general overview of the Town's finances for all those who have an interest. Questions concerning any of the information presented in this report or requests for additional information should be addressed to the Mayor, Town of Milton, 115 Federal Street, Milton, DE 19968.

Town of Milton, Delaware
Management Discussion and Analysis
September 30, 2010

Capital Assets

The Town's investment in capital assets as of September 30, 2010, amounted to \$3,224,745 net of accumulated depreciation. Capital assets consist of land, infrastructure, buildings, vehicles, and equipment. Net capital assets decreased by \$483,638. This decrease resulted from depreciation expense being recorded at \$307,652, adjustments to decrease the beginning of year balance in the net amount of \$212,986 and additions of \$37,000.

Additional information on the Town's capital assets can be found in Note 6 to the financial statements.

Long Term Debt

The Town had two capital leases for vehicles which were paid off in 2010. The Town did not enter any additional capital leases during the year.

On June 8, 2001 the Town entered into a loan agreement between the Delaware Drinking Water State Revolving Fund, offered through the Delaware Department of Health & Social Services, Division of Public Health, to fund upgrades to the Town's drinking water treatment and delivery system as well as improvements to the Town's waste water treatment plant. The amount of the loan related to the waste water treatment plant was paid off during the fiscal year ending September 30, 2009. The loan related to the delivery system matures in 2023 with annual payments, including interest, of \$48,615.

Additional information on the Town's long term debt can be found in Note 7 to the financial statements.

General Fund Budgetary Highlights

General Fund revenues were approximately \$47,000 or 3.26% below budget. The deficit was mainly due to Charges for Services being under budget due to the reduced building activity occurring in the Town. The decline in Charges for Services was offset by the additional grant revenue received for Rails to Trails. Streets Department capital repair expenditures were over budget by \$55,000. In addition, Police Department expenditures were over budget by approximately \$61,000 or 7.7%. Overall, actual expenditures exceeded budget by just over \$98,900 or 5.5%.

The Town had budgeted for General Fund expenditures to exceed revenues by over \$350,000. However, this was not initially evident, since the prior Town management publically presented a combined budget, offsetting the General Fund shortfall with the excess from the Utility Fund. The actual operating results show expenditures exceeding revenue by over \$500,000.

Economic Factors and Future Outlook

- The unemployment rate for Sussex County, of which Town of Milton is contained within, at September 30, 2010 was 7.3%, which remains lower than the state average of 8.4% and the national average of 9.6%.
- The Town adopted a budget without a tax increase for the fiscal year ending September 30, 2011. However, the General Fund budget was adopted with an operating deficit in excess of \$459,000. Due to the expected operating deficit, town management has attempted to locate cost savings. They have reduced administrative staffing to save money. In addition, the garbage collection fee remained level for 2011.

Town of Milton, Delaware
Statement of Net Assets
September 30, 2010

	Primary Government		
	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Assets			
Cash and Cash Equivalents	\$ 1,352,775	\$ 524,975	\$ 1,877,750
Accounts Receivable	130,631	210,158	340,789
Internal Balances	(22,165)	22,165	-
Inventory	-	41,788	41,788
Prepaid Expenses	21,933	4,600	26,533
Capital Assets, Net	1,611,051	1,613,694	3,224,745
Total Assets	3,094,225	2,417,380	5,511,605
Liabilities			
Accounts Payable	73,009	20,812	93,821
Accrued Wages and Payroll Taxes	27,339	12,609	39,948
Due to Tidewater	123,000	-	123,000
Unearned Revenue	47,702	-	47,702
Interest Payable	-	3,803	3,803
Current Portions of Long Term Liabilities:			
Long-term Debt	-	-	-
Compensated Absences	58,479	-	58,479
Non-Current Potions of Long Term Liabilities:			
Long-term Debt	-	514,990	514,990
Compensated Absences	101,887	22,885	124,772
Total Liabilities	431,416	575,099	1,006,515
Net Assets			
Invested In Capital Assets, Net of Related Debt	1,611,051	1,098,704	2,709,755
Unrestricted	1,051,758	743,577	1,795,335
Total Net Assets	\$ 2,662,809	\$ 1,842,281	\$ 4,505,090

The accompanying notes are an integral part of the financial statements.

Town of Milton, Delaware
Statement of Activities
September 30, 2010

	<u>Program Revenues</u>			<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>		
Functions/Programs				<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary Government:						
Governmental Activities:						
General Government	\$ 693,694	\$ 122,103	\$ 20,000	\$ (551,591)		\$ (551,591)
Streets Department	267,845	-	-	(267,845)		(267,845)
Police Department	828,542	23,202	52,763	(752,577)		(752,577)
Parks and Recreation	87,668	2,700	65,333	(19,635)		(19,635)
Codes Department	167,966	138,077	-	(29,889)		(29,889)
Other Expenditures	27,932	-	-	(27,932)		(27,932)
Total Governmental Activities	<u>2,073,647</u>	<u>286,082</u>	<u>138,096</u>	<u>(1,649,469)</u>		<u>(1,649,469)</u>
Business-Type Activities:						
Trash Collection	186,886	200,644	-	-	13,758	13,758
Water System	456,311	530,641	-	-	74,330	74,330
Total Business-Type Activities	<u>643,197</u>	<u>731,285</u>	<u>-</u>	<u>-</u>	<u>88,088</u>	<u>88,088</u>
Total Primary Government	<u>\$ 2,716,844</u>	<u>\$ 1,017,367</u>	<u>\$ 138,096</u>	<u>\$ (1,649,469)</u>	<u>\$ 88,088</u>	<u>\$ (1,561,381)</u>
General Revenues:						
Property Taxes - General Levy				855,363	-	855,363
Interest and Investment Earnings				71,006	240	71,246
Miscellaneous				65,262	-	65,262
Total General Revenues and Transfers				<u>991,631</u>	<u>240</u>	<u>991,871</u>
Change in Net Assets				(657,838)	88,328	(569,510)
Net Assets - Beginning of Year				3,679,292	1,705,794	5,385,086
Prior period adjustment				(358,645)	48,159	(310,486)
Net Assets - as restated				<u>3,320,647</u>	<u>1,753,953</u>	<u>5,074,600</u>
Net Assets - Ending				<u>\$ 2,662,809</u>	<u>\$ 1,842,281</u>	<u>\$ 4,505,090</u>

The accompanying notes are an integral part of the financial statements.

Town of Milton, Delaware
Balance Sheet – Governmental Funds
September 30, 2010

Assets	General	Municipal Street Aid	Nonmajor Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents	\$ 1,330,854	\$ 8,446	\$ 13,475	\$ 1,352,775
Accounts Receivable	130,631	-	-	130,631
Due From Other Funds	625	-	-	625
Prepaid Assets	21,933	-	-	21,933
Total Assets	<u>\$ 1,484,043</u>	<u>\$ 8,446</u>	<u>\$ 13,475</u>	<u>\$ 1,505,964</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 63,232	\$ 8,512	\$ 1,265	\$ 73,009
Accrued Wages and Payroll Taxes	27,339	-	-	27,339
Accrued Leave	58,479	-	-	58,479
Deferred Revenue	74,541	-	11,523	86,064
Due to Tidewater	123,000	-	-	123,000
Due to Other Funds	22,165	-	625	22,790
Total Liabilities	<u>368,756</u>	<u>8,512</u>	<u>13,413</u>	<u>390,681</u>
Fund Balances				
Reserved	-	-	-	-
Unreserved	1,115,287	(66)	62	1,115,283
Total Fund Balances	<u>1,115,287</u>	<u>(66)</u>	<u>62</u>	<u>1,115,283</u>
Total Liabilities and Fund Balances	<u>\$ 1,484,043</u>	<u>\$ 8,446</u>	<u>\$ 13,475</u>	<u>\$ 1,505,964</u>

The accompanying notes are an integral part of the financial statements.

Town of Milton, Delaware
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
September 30, 2010

Total Fund Balances of Governmental Funds:	\$ 1,115,283
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital Assets including Infrastructure assets, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	1,611,051
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The funds record only the tax revenue received through a period of 60 days subsequent to year-end. The statement of net assets includes a receivable for the Town's anticipated collections on the levy.	38,362
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Long-term liabilities are not due and payable in the current period and accordingly not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the Statement of Net Assets. Long-term liabilities at year-end consist of:

Accrued Compensated Absences	<u>(101,887)</u>
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Total Net Assets of Governmental Activities	<u><u>\$ 2,662,809</u></u>
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The accompanying notes are an integral part of the financial statements.

Town of Milton, Delaware
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
September 30, 2010

	General	Municipal Street Aid	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes and Assessments	\$ 853,180	\$ -	\$ -	\$ 853,180
Intergovernmental Grants	130,837	-	7,259	138,096
Charges for Services	260,760	-	-	260,760
Miscellaneous Revenues	65,262	-	-	65,262
Fines and Forfeitures	25,322	-	-	25,322
Interest and Investment Earnings	70,913	93	-	71,006
Total Revenues	1,406,274	93	7,259	1,413,626
Expenditures				
General Government	638,781	-	-	638,781
Streets Department	152,955	50,089	-	203,044
Police Department	858,268	-	7,259	865,527
Parks and Recreation	54,435	-	-	54,435
Codes Department	173,912	-	-	173,912
Other Expenditures	27,932	-	-	27,932
Total Expenditures	1,906,283	50,089	7,259	1,963,631
Excess of Revenues Over (Under) Expenditures	(500,009)	(49,996)	-	(550,005)
Other Financing Sources (Uses)				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	-	-	-	-
Gain on Sale of Land	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(500,009)	(49,996)	-	(550,005)
Fund Balances - Beginning of Year (Restated)	1,615,296	49,930	62	1,665,288
Fund Balances - End of Year	\$ 1,115,287	\$ (66)	\$ 62	\$ 1,115,283

The accompanying notes are an integral part of the financial statements.

Town of Milton, Delaware
Reconciliation of the Statement of Revenues
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
September 30, 2010

Net Change in fund balances - total governmental funds \$ (550,005)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital purchases as expenditures. In the
Statement of Activities, the cost of these assets is depreciated over the
estimated useful lives and is reported as depreciation expense. The
difference in the current period between capital expenditures (\$37,000),
and depreciation expense (\$200,020) is a reconciling item. (163,020)

Additional tax revenue recorded on statement of activities. The funds report
only receipts through 60 days of subsequent period. The Statement of Activities
includes full amount of levy deemed collectible by the Town. 2,183

The issuance of long-term liabilities provide financial resources to
governmental funds and contribute to the change in fund balance.
However, the issuance of debt does not affect the Statement of Activities
since it increases long-term liabilities in the Statement of Net Assets.
Accordingly, the repayment of principal is reported as an expenditure
in the governmental funds, but reduces the liability in the Statement of Net
Assets. The amounts related to the above items that make up difference is:
Principal Repayments 18,311

Pursuant to the modified basis of accounting, governmental funds do not
recognize expenditures for transactions that are not normally paid with
expendable available financial resources. Pursuant to the accrual basis
of accounting, the Statement of Activities reports expenses and liabilities
regardless of when financial resources are available. In addition, interest
on long-term debt is not recognized in the governmental funds until due,
while it is accrued in the Statement of Activities. The differences for the
items discussed above are:

Compensated absence expense 34,693
Accrual of interest on long-term debt -

Change in Net Assets of governmental activities \$ (657,838)

The accompanying notes are an integral part of the financial statements.

Town of Milton, Delaware
Statement of Fund Net Assets – Proprietary Funds
September 30, 2010

	<u>Utilities</u>	<u>Totals</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 524,975	\$ 524,975
Accounts Receivable	210,158	210,158
Inventory	41,788	41,788
Due from Other Funds	22,165	22,165
Prepaid Expenses	<u>4,600</u>	<u>4,600</u>
Total Current Assets	<u>803,686</u>	<u>803,686</u>
Non-Current Assets:		
Capital Assets		
Improvements	2,098,611	2,098,611
Machinery and Equipment	401,767	401,767
Vehicles	169,918	169,918
Accumulated Depreciation	<u>(1,056,602)</u>	<u>(1,056,602)</u>
Capital Assets	<u>1,613,694</u>	<u>1,613,694</u>
Total Non-Current Assets	<u>1,613,694</u>	<u>1,613,694</u>
Total Assets	<u>2,417,380</u>	<u>2,417,380</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	20,812	20,812
Interest Payable	3,803	3,803
Accrued Wages and Payroll Taxes	12,609	12,609
Due to Other Funds	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>37,224</u>	<u>37,224</u>
Long-Term Liabilities		
Compensated Absences	22,885	22,885
Notes Payable	<u>514,990</u>	<u>514,990</u>
Total Long-Term Liabilities	<u>537,875</u>	<u>537,875</u>
Total Liabilities	<u>575,099</u>	<u>575,099</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,098,704	1,098,704
Unrestricted	<u>743,577</u>	<u>743,577</u>
Total Net Assets	<u>\$ 1,842,281</u>	<u>\$ 1,842,281</u>

The accompanying notes are an integral part of the financial statements.

Town of Milton, Delaware
Statement of Revenues, Expenses, And
Change in Fund Net Assets (Deficits) – Proprietary Funds
September 30, 2010

	Utilities	Total
Operating Revenues		
Trash Collection	\$ 200,644	\$ 200,644
Water Service Charges	454,484	454,484
Tapping Fees	14,500	14,500
Sale of Meters	11,397	11,397
Penalties	5,552	5,552
Impact Fees	39,150	39,150
Miscellaneous Income	5,558	5,558
Total Operating Revenues	<u>731,285</u>	<u>731,285</u>
Operating Expenditures		
Trash Disposal	186,886	186,886
Salaries	127,651	127,651
Payroll Taxes	9,205	9,205
Employee Fringe Benefits	29,043	29,043
Pension	12,290	12,290
Depreciation	107,632	107,632
Supplies	32,893	32,893
Gas and Oil	13,884	13,884
Printing and Postage	3,115	3,115
Propane	3,554	3,554
Repairs and Maintenance	53,868	53,868
Telephone & Related Cost	5,426	5,426
Uniforms	8,298	8,298
Utilities	29,084	29,084
Miscellaneous	3,610	3,610
Total Operating Expenditures	<u>626,439</u>	<u>626,439</u>
Operating Income (Loss)	<u>104,846</u>	<u>104,846</u>
Nonoperating Revenues and Expenses		
Grants		-
Interest Income	240	240
Interest Expense	(16,758)	(16,758)
Total Nonoperating Revenues and Expenses	<u>(16,518)</u>	<u>(16,518)</u>
Loss Before Other Financing Sources (Uses)	<u>88,328</u>	<u>88,328</u>
Other Financing Sources (Uses)		
Operating Transfers In		-
Operating Transfers Out		-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>
Net Income (Loss)	<u>88,328</u>	<u>88,328</u>
Net Assets (Deficits) - Beginning of Year, Restated	<u>1,753,953</u>	<u>1,753,953</u>
Net Assets (Deficits) - End of Year	<u>\$ 1,842,281</u>	<u>\$ 1,842,281</u>

The accompanying notes are an integral part of the financial statements.

Town of Milton, Delaware
Statement of Cash Flows – Proprietary Funds
September 30, 2010

	Proprietary Fund Types	
	Utilities	Total
Cash Flow From Operating Activities		
Trash Collection Receipts	\$ 200,878	\$ 200,878
Water System Receipts	529,407	529,407
Other Receipts	3,608	3,608
Payments for Trash Disposal	(186,886)	(186,886)
Payments to Employees	(137,115)	(137,115)
Payments to Suppliers	(193,065)	(193,065)
Internal Transfers	(22,166)	(22,166)
Net Cash Provided by (Used in) Operating Activities	194,661	194,661
Cash Flows from Investing Activities		
Interest Receipts	240	240
Net Cash Provided by Investing Activities	240	240
Cash Flows from Financing Activities		
Payments on Long-Term Debt	(31,591)	(31,591)
Interest Payment on Long-Term Debt	(17,024)	(17,024)
Net Cash Provided by Financing Activities	(48,615)	(48,615)
Net Increase (Decrease) in Cash	146,286	146,286
Cash - Beginning of Year	378,689	378,689
Cash - End of Year	\$ 524,975	\$ 524,975
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ 104,846	\$ 104,846
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities		
Depreciation	107,632	107,632
(Increase) Decrease in Assets:		
Accounts Receivable	2,608	2,608
Inventory	4,278	4,278
Prepaid Expenses	3,667	3,667
Due from Other Funds	(22,166)	(22,166)
Increase (Decrease) in Liabilities:		
Accounts Payable	(5,945)	(5,945)
Accrued Liabilities	6,392	6,392
Compensated Absences	(6,651)	(6,651)
Total Adjustments	89,815	89,815
Net Cash Provided by (Used in) Operating Activities	\$ 194,661	\$ 194,661

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

Town of Milton, Delaware
Notes to Basic Financial Statements
September 30, 2010

1. Summary of Significant Accounting Policies

A. General Statement

The Town of Milton (the "Town") was incorporated in 1807 under the provisions of the State of Delaware. The Town operates under a Town Council form of government and provides the following services as authorized by its charter: public safety (police), streets, sanitation, water, recreation, public improvements, planning and zoning, and general administrative services.

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the Town has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989. The more significant accounting policies of the Town are described below.

B. Financial Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Town holds the corporate powers of the organization
- The Town appoints a voting majority of the organization's board
- The Town is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the Town
- There is fiscal dependency by the organization on the Town

Based on the aforementioned criteria, the Town of Milton has no component units.

C. Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the Town. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Town of Milton, Delaware
Notes to Basic Financial Statements
September 30, 2010

C. Basis of Presentation (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of the function. Taxes and other items which are properly not included among program revenues are reported instead as general revenues. Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements rather than as another financing source. Amounts paid to reduce long-term indebtedness of the Town are reported as a reduction of the related liability, rather than as expenditures.

Fund Financial Statements:

The underlying accounting system of the Town is organized and operated on a basis of separate funds, each of which is considered to be a separate reporting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise it assets, liabilities, fund balances/net assets, revenues and expenses or expenditures, as appropriate. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

Governmental Funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is the current financial resources. The Town has presented the following major governmental funds:

General Fund – This is the main operating fund of the Town. It is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of operating income and changes in net assets, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The Town has presented the following major proprietary funds:

Water Department – This is used to account for the provision of water services to the residents of the Town. Activities of the fund include administration, operations and maintenance, and billing and collection activities. The fund also accounts for the

Town of Milton, Delaware
Notes to Basic Financial Statements
September 30, 2010

C. Basis of Presentation (Continued)

accumulation of resources for, and the payment of, long-term debt principal and interest for water debt.

Trash Department – This is used to account for the provision of trash services to the residents of the Town. This service is subcontracted out to a local trash company.

All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured, basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions."

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon they become both measurable and available. For this purpose, the Town considers revenues, except taxes, to be available if they are collected within 180 days of the end of the current fiscal period. Property taxes are deemed available if collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, charges for service, interest income and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

Town of Milton, Delaware
Notes to Basic Financial Statements
September 30, 2010

D. Measurement Focus/Basis of Accounting (Continued)

The Town reports the following major governmental funds:

The General Fund is used to account for all financial transactions not accounted for in another fund. Revenues are derived principally from property taxes, municipal user taxes, and other intergovernmental revenues. This fund accounts for the general administrative services of the Town not recorded elsewhere, including the activities of the various departments, public safety, street maintenance, code enforcement, general administrative, and mayor and council.

The Municipal Street Aid Fund is used to account for financial transactions pertaining to specific resources. Revenues are derived from State of Delaware Transportation Trust Fund grant monies. Expenditures of these monies are allowable for improvements to water and sewer systems, street improvements, public safety and public works.

The Town reports the following major enterprise fund:

Utilities Fund reports Town operations that provide services financed primarily by use charges or activities where the periodic measurement of net income is appropriate for capital maintenance, public policy and management control. The Utilities Fund accounts for the Trash Collection and Water Services provided by the Town.

E. Implementation of New Accounting Principles

The Town adopted the provisions of GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." The adoption of this statement had no effect on the financial reporting information of the Town.

The Town adopted the provisions of GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." The adoption of this statement had no effect on the financial reporting information of the Town.

The Town adopted the provisions of GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies." The adoption of this statement had no effect on the financial reporting information of the Town.

F. Pending Changes in Accounting Principles

In March 2009, GASB issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." The Town is required to adopt Statement No. 54 for its fiscal year 2011 financial statements.

In December 2009, GASB issued Statement No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*." The Town is required to adopt Statement No. 54 for its fiscal year 2012 financial statements.

Town of Milton, Delaware
Notes to Basic Financial Statements
September 30, 2010

F. Pending Changes in Accounting Principles (Continued)

In June 2010, GASB issued Statement No. 59, "*Financial Instruments Omnibus*." The Town is required to adopt Statement No. 59 for its fiscal year 2011 financial statements.

In November 2010, GASB issued Statement No. 60 "*Accounting and Financial Reporting for Service Concession Arrangement*." The Town is required to adopt Statement No. 60 for its fiscal year 2012 financial statements.

In November 2010, GASB issued Statement No. 61, "*The Financial Reporting Entity: Omnibus*." The Town is required to adopt Statement No. 61 for its fiscal year 2013 financial statements.

In December 2010, GASB issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The Town is required to adopt Statement No. 62 for its fiscal year 2012 financial statements.

The Town has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

G. Budgetary Control

The Town charter established the fiscal year as the twelve month period beginning October 1. The Town Council adopts a budget annually. The budget can be revised as deemed necessary by the Council. A single fixed budget covers the general fund and enterprise fund, and is employed during the year as a management control device. The budgetary amounts are comprised of the normal operating budget and supplemental budget allocations, if applicable.

H. Cash Equivalents

Cash equivalents include highly liquid investments with original maturities, when purchased, of less than three months.

I. Prepaid Items

Prepaid balances are for payments made by the Town in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recognized to signify that a portion of the fund balance is not available for other subsequent expenditures.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Town to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Town of Milton, Delaware
Notes to Basic Financial Statements
September 30, 2010

K. Inventory

Inventory consists of supplies used in water improvements and are recorded at cost using the first-in, first-out method.

L. Interfund Transactions

The Town affects a variety of transactions between the funds to finance operations in connection within its operations. Accordingly, to the extent that certain interfund transactions have not been paid or received as of December 31, 2010, appropriate interfund receivables or payables have been established.

M. Compensated Absences

The Town's governmental funds record a current liability for any compensated absences which are due and payable within one year of the fiscal year end. The government-wide and proprietary fund financial statements accrue the total liability.

N. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital Assets are defined by the Town as assets with an initial, individual cost of \$5,000 and an estimated useful life exceeding one year. Such assets are recorded at historical costs. Donated assets are valued at their fair market value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

O. Net Assets/Fund Balances

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as follows:

- A. Invested in Capital Assets, net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- B. Restricted Net Assets – The category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- C. Unrestricted Net Assets – This category represents net assets of the Town, not restricted for any project or other purpose.

Town of Milton, Delaware
Notes to Basic Financial Statements
September 30, 2010

P. Long-Term Obligations

In government-wide and proprietary und financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt.

In the fund financial statements, governmental fund types recognized premiums and discounts, as well as issue costs, during the current period.

Q. Unearned/Deferred Revenues

Revenues that are received but not earned are recorded as unearned revenues in the government-wide and proprietary fund financial statements. In governmental funds, deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the governmental funds’ balance sheet and revenue is recognized.

2. Deposits

The deposits of the Town can be categorized to indicate the level of risk assumed. Category 1 includes bank balances that are insured by the Federal Deposit Insurance Corporation. Category 2 includes bank balances collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name. Category 3 includes bank balances that are collateralized by the institution to pool collateral for all its government deposits, and to have the collateral held by an approved custodian in the institution's name. The Town has only Category 1 and Category 3 deposits categorized as follows:

	<u>Category One</u>	<u>Category Three</u>	<u>Total</u>
Deposits	\$274,222	\$1,642,286	\$1,916,508
Less: Outstanding Checks			<u>63,279</u>
Total Financial Statement Balance			<u>\$1,853,229</u>

Custodial Credit Risk to Deposits

Custodial Credit Risk is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town's policy for minimizing credit risk for bank balances exceeding the Federal Deposit Insurance Corporation's insured limits relies upon financial institution's pledge of securities for its government deposits in addition to having the collateral held by an approved custodian in the institution's name. At year-end, deposits in excess of FDIC coverage totaled \$1,624,286.

Town of Milton, Delaware
Notes to Basic Financial Statements
September 30, 2010

2. Deposits (Continued)

Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Town is permitted to invest funds in U.S. Treasury Bills, Short - Term Obligations of the United States Government or its agencies or instrumentalities, obligations of the United States of America or nay of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the State of Delaware or any of its agencies or instrumentalities backed by full faith and credit of the political subdivision, Certificates of Deposit, Secured Purchase Agreements, authorized Investments Trust Companies and Time or Share Accounts of Institutions insured or secured by the FDIC to the extent such certificates are insured by a proper bond or collateral.

Foreign Currency Risk

The Town was not exposed to foreign currency risk for the 2010 fiscal year.

3. Budget Process

The Town Council follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. Each year and not later than sixty (60) days prior to the beginning of the next year, the Administrative Assistant shall prepare a rough draft of the Town budget. From this rough draft, the Town Council, shall no later than the next regular meeting following the presentation of the rough draft, prepare the Town Budget, containing the financial plan for conducting the affairs of the Town for the ensuing fiscal year.
- B. The budget shall contain the following information:
 1. A detailed estimate showing the expense of conducting each department and office of the Town for the ensuing fiscal year;
 2. The amount of the debt the Town, together with the schedule of maturities of bond issues;
 3. An itemized statement of all other estimated expenses to be incurred in the affairs of the Town for the ensuing fiscal year;
 4. An estimate of the amount of money to be received from taxes, water rents, trash fees, front footage assessments, license fees and all other anticipated income of the Town from any source or sources whatsoever.
- C. The Town Council shall, so far as possible, adhere to the budget adopted in the making of appropriations. All annual appropriations unused and unencumbered lapse at year end.
- D. The budget must be enacted by September 30 of the year preceding the next fiscal year.

Town of Milton, Delaware
Notes to Basic Financial Statements
September 30, 2010

4. Property Taxes

Property taxes are levied on January 15 and are due and payable at that time. Taxes unpaid by March 31 of the same year become delinquent. Property taxes attach as an enforceable lien on property as of March 31 after being two years delinquent.

Property tax revenues are recognized when they become available and this includes those property tax receivables expected to be collected within 60 days after year end. Delinquent taxes are considered fully collectible and therefore allowance for uncollectible taxes is not provided.

5. Interfund Receivables and Payables

The interfund receivables and payables (due from or to other funds) are loans within the government and are reported as current assets and liabilities between the individual funds.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 625	\$ 22,165
Utilities Fund	22,165	-
State Aid to Local Law Enforcement Fund	<u>-</u>	<u>625</u>
Total Primary Government	<u>\$ 22,790</u>	<u>\$ 22,790</u>

6. Capital Assets

The changes in the Town's Capital Assets are as follows:

Governmental Activities:

	Balance September 30, 2009	Adjustments to Balance at September 30, 2009	Additions	Balance September 30, 2010
Land	\$ 30,721	\$ 7,659	\$ -	\$ 38,380
Buildings	834,052	(15,361)	-	818,691
Other Improvements	1,509,397	(496,808)	18,000	1,030,589
Machinery and Equipment	846,227	(368,628)	19,000	496,599
Streets and Sidewalks	-	218,502	-	218,502
Vehicles	<u>448,657</u>	<u>(88,654)</u>	<u>-</u>	<u>360,003</u>
Total	3,669,054	(743,290)	37,000	2,962,764
Less: Accumulated Depreciation	<u>(1,633,838)</u>	<u>482,144</u>	<u>(200,020)</u>	<u>1,351,714</u>
Capital Assets (Net of Accumulated Depreciation)	<u>\$2,035,216</u>	<u>\$(261,146)</u>	<u>\$(163,020)</u>	<u>\$1,611,050</u>

Town of Milton, Delaware
Notes to Basic Financial Statements
September 30, 2010

6. Capital Assets (Continued)

Business-Type Activities:

	Balance September 30, 2009	Adjustments to Balance at September 30, 2009	Additions	Balance September 30, 2010
Buildings	\$ 2,993	\$(2,993)	-	-
Other Improvements	2,397,569	(298,958)	-	2,098,611
Machinery and Equipment	872,918	(471,151)	-	401,767
Vehicles	<u>168,067</u>	<u>1,851</u>	<u>-</u>	<u>169,918</u>
Total	3,441,547	(771,251)	-	2,670,296
Less: Accumulated Depreciation	<u>(1,768,381)</u>	<u>819,411</u>	<u>(107,632)</u>	<u>(1,056,602)</u>
Capital Assets (Net of Accumulated Depreciation)	<u>\$1,673,166</u>	<u>\$48,160</u>	<u>\$(107,632)</u>	<u>\$1,613,694</u>

Depreciation was expensed to the following functional activities:

Governmental Activities:

General Government	\$ 61,852
Streets Department	64,801
Police Department	34,532
Parks and Recreation	33,233
Codes Department	<u>5,602</u>

Total Governmental Activities \$ 200,020

Utilities Fund – Water Department \$ 107,632

7. Long-Term Debt

A. General Fund

On December 14, 2007, the Town entered into a lease purchase agreement with Ford Motor Credit to acquire a 2008 Ford Explorer. The annual lease payment is \$9,424.51. The term of the lease is for three years at an annual percentage of 6.25%. This lease was paid off in December 2009.

On May 5, 2008, the Town entered into a lease purchase agreement with Ford Motor Credit to acquire a 2008 Ford Crown Victoria. The annual lease purchase agreement with Ford Motor Credit to acquire a 2008 Ford Crown Victoria. The annual lease payment is \$10,002.91. The term of the lease is for three years at an annual percentage at 5.95%. This lease was paid off in May 2010.

Town of Milton, Delaware
Notes to Basic Financial Statements
September 30, 2010

7. Long-Term Debt (Continued)

B. Proprietary Fund

State Revolving Fund Loan Monies (SRF): On June 8, 2001 the Town entered into a loan agreement between the Delaware Drinking Water State Revolving Fund, offered through the Delaware Department of Health & Social Services, Division of Public Health, to fund upgrades to the Town's drinking water treatment and delivery system as well as improvements to the Town's waste water treatment plant. The amount of the loan related to the waste water treatment plant was paid off during the fiscal year ending September 30, 2009.

The following is outstanding debt for the year ended September 30, 2010:

	Beginning Balance <u>10/01/09</u>	Amounts <u>Retired</u>	Ending Balance <u>09/30/10</u>
<u>General Fund:</u>			
Capital Leases	\$ 18,311	\$ 18,311	\$ -
Total General Fund	<u>\$ 18,311</u>	<u>\$ 18,311</u>	<u>\$ -</u>
<u>Proprietary Fund:</u>			
SRF Loan – Water	\$ 546,581	\$ 31,591	\$ 514,990
Total Proprietary Fund	<u>\$ 546,581</u>	<u>\$ 31,591</u>	<u>\$ 514,990</u>
Total All Debt	<u>\$ 564,892</u>	<u>\$ 49,902</u>	<u>\$ 514,990</u>

Future debt service payments for the State Revolving Loan are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$32,597	\$16,018	\$48,615
2012	33,635	14,980	48,615
2013	34,706	13,909	48,615
2014	35,811	12,804	48,615
2015	36,952	11,663	48,615
2016-2020	203,182	39,892	243,074
2021-2023	<u>138,107</u>	<u>7,737</u>	<u>145,844</u>
Total	<u>\$514,990</u>	<u>117,003</u>	<u>631,993</u>

Town of Milton, Delaware
Notes to Basic Financial Statements
September 30, 2010

8. Compensated Absences

The Town has accrued a liability for leave pay which has been earned but not taken by Town employees. For departments included in the General Fund, the current liability is reported in the General Fund. The government-wide and proprietary fund financial statements report the entire liability. The liability recorded in the financial statements at September 30, 2010 is as follows:

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
Administrative Department	\$9,758	\$12,283	\$22,041
Code Enforcement	5,885	16,917	22,802
Police Department	42,836	72,687	115,523
Public Works Department	<u>6,979</u>	<u>21,840</u>	<u>28,819</u>
Total	<u>65,458</u>	<u>123,727</u>	<u>189,185</u>

9. Employee Pension Plan

Effective October 1, 2003, the Town became a member of the State of Delaware County and Municipal Police Pension Plan, a cost-sharing multiple-employer defined benefit plan administered by the Board of Pension Trustees of the State of Delaware. The Town's cost of participating in this plan is set by the State's Legislative body annually. Municipal employees and municipal police officers must contribute 3% and 7%, respectively.

The Police Department does receive grant monies from the State of Delaware through a special tax on gross premiums for the benefit of police. During the fiscal year the Town received \$37,504.

10. Commitments

In fiscal year ended September 30, 2002, a ten year management agreement with Corrosion Control Corporation was created whereby Corrosion Control will provide maintenance services to the Town's water tower. The Town will be responsible for making one annual payment of \$37,000, two annual payments of \$29,000, and seven annual payments of \$13,800.

<u>Year Ended</u>	<u>Amount</u>
9/30/2011	13,800
9/30/2012	<u>13,800</u>
Total Minimum Future Maintenance Payments	<u>\$27,600</u>

Town of Milton, Delaware
Notes to Basic Financial Statements
September 30, 2010

11. Accounts Receivable

This balance represents individual balances due the Town at September 30, 2010. The reports balances are comprised of the following:

Real Estate Taxes (including Penalties)	\$ 103,796
Other	<u>26,835</u>
Total General Fund	<u>\$ 130,631</u>
Water Service Charges	152,821
Trash Service Charges	54,397
Other	<u>2,939</u>
Total Proprietary Fund	<u>\$210,157</u>

12. Contingent Liabilities

Due to the nature of activities in which Town employees are involved, from time to time legal matters may arise. The Town relies on its insurance coverage for such potential liabilities. Insurance deductibles are \$2,500 for general liabilities and \$10,000 for police liabilities.

13. Privatization of the Wastewater Treatment Plant

On July 1, 2007, the Town sold the wastewater treatment plant and the sewer infrastructure to Tidewater Environmental Services, Inc. (TESI). As part of this transaction, for every new sewer impact fee ranging from \$5,500 to \$8,000, the Town receives \$1,500, while TESI receives the balance. As of September 30, 2010, the Town owes a balance of \$123,000 to TESI, and this amount is recorded as a liability in the financial statements at September 30, 2010.

14. Restatement of Net Assets/Fund Balances

The Town restated its net assets and fund balances at October 1, 2009 in the amounts as follows:

	Governmental <u>Activities</u>	General <u>Fund</u>	Utilities <u>Fund</u>
Net Assets/Fund Balances at October 1, 2009, as previously reported	\$ 3,679,292	\$ 1,712,796	\$ 1,705,794
Understatement of Liability Due to Tidewater	(97,500)	(97,500)	-
Reclassification of Capital Assets and Deletion of Capital Assets No Longer Owned by the Town at October 1, 2009	<u>(261,145)</u>	<u>-</u>	<u>48,159</u>
Net Assets/Fund Balances at October 1, 2009, as restated	<u>\$ 3,320,647</u>	<u>\$ 1,615,296</u>	<u>\$ 1,753,953</u>

Required Supplemental Information

Town of Milton, Delaware
Schedule of Revenues, Expenditures, And Changes in Fund Balance-
Budget and Actual – General Fund
September 30, 2010

	Original Budget	Final Budget	Actual	Variance Positive / (Negative)
Revenues				
Taxes and Assessments	\$ 874,500	\$ 874,500	\$ 853,180	\$ (21,320)
Intergovernmental Grants	55,000	55,000	130,837	75,837
Charges for Services	374,700	374,700	260,760	(113,940)
Miscellaneous Revenues	47,000	47,000	65,262	18,262
Fines and Forfeitures	32,500	32,500	25,322	(7,178)
Interest and Royalties	70,000	70,000	70,913	913
Total Revenues	1,453,700	1,453,700	1,406,274	(47,426)
Expenditures				
General Government	674,458	674,458	638,781	35,677
Streets Department	47,398	47,398	152,955	(105,557)
Police Department	791,172	791,172	858,268	(67,096)
Parks and Recreation	49,895	49,895	54,435	(4,540)
Codes Department	218,953	218,953	173,912	45,041
Other Expenditures	25,500	25,500	27,932	(2,432)
Total Expenditures	1,807,376	1,807,376	1,906,283	(98,907)
Excess of Revenues Over Expenditures	(353,676)	(353,676)	(500,009)	(146,333)
Other Financing Uses				
Transfer In	-	-	-	-
Transfer Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(353,676)	(353,676)	(500,009)	(146,333)
Fund Balances - Beginning of Year	353,676	368,007	1,615,296	1,247,289
Fund Balances - End of Year	\$ -	\$ 14,331	\$ 1,115,287	\$ 1,100,956

Town of Milton, Delaware
Schedule of Revenues, Expenditures, And Changes in Fund Balance –
Budget and Actual – Municipal Street Aid – Special Revenue Fund
September 30, 2010

	Original Budget	Final Budget	Actual	Variance Positive / (Negative)
Revenues				
Grants and Gifts	\$ -	\$ -	\$ -	\$ -
Interest and Royalties	700	700	93	(607)
Charges for Services	-	-	-	-
Other Revenue	-	-	-	-
Total Revenues	<u>700</u>	<u>700</u>	<u>93</u>	<u>(607)</u>
Expenditures				
Streets Department	<u>60,000</u>	<u>60,000</u>	<u>50,089</u>	<u>9,911</u>
Total Expenditures	<u>60,000</u>	<u>60,000</u>	<u>50,089</u>	<u>9,911</u>
Excess of Revenues Over (Under) Expenditures	<u>(59,300)</u>	<u>(59,300)</u>	<u>(49,996)</u>	<u>9,304</u>
Other Financing Sources (Uses)				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(59,300)</u>	<u>(59,300)</u>	<u>(49,996)</u>	<u>9,304</u>
Fund Balances - Beginning of Year	<u>59,300</u>	<u>59,300</u>	<u>49,930</u>	<u>(9,370)</u>
Fund Balances - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (66)</u>	<u>\$ (66)</u>

Other Supplemental Information

Town of Milton, Delaware
Combining Balance Sheet – Non Major Governmental Funds
September 30, 2010

Assets	State Aid to Local Law Enforcement	Emergency Illegal Drug Enforcement	SWAT	Total Governmental Funds
Cash and Cash Equivalents	\$ 8,920	\$ 4,493	\$ 62	\$ 13,475
Total Assets	<u>\$ 8,920</u>	<u>\$ 4,493</u>	<u>\$ 62</u>	<u>\$ 13,475</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Vouchers and Warrants Payable	\$ 1,265	\$ -	\$ -	\$ 1,265
Due to Other Funds	626	-	-	626
Deferred Revenue	<u>7,029</u>	<u>4,493</u>	<u>-</u>	<u>11,522</u>
Total Liabilities	<u>8,920</u>	<u>4,493</u>	<u>-</u>	<u>13,413</u>
Fund Balances				
Unreserved	<u>-</u>	<u>-</u>	<u>62</u>	<u>62</u>
Total Fund Balances	<u>-</u>	<u>-</u>	<u>62</u>	<u>62</u>
Total Liabilities and Fund Balances	<u>\$ 8,920</u>	<u>\$ 4,493</u>	<u>\$ 62</u>	<u>\$ 13,475</u>

Town of Milton, Delaware
Combining Statement of Revenues, Expenditures, And Changes in Fund Balances –
Non Major Governmental Funds
September 30, 2010

	<u>State Aid to Local Law Enforcement</u>	<u>Emergency Illegal Drug Enforcement</u>	<u>Total Governmental Funds</u>
Revenues			
Grants and Gifts	\$ 3,899	\$ 3,360	\$ 7,259
	<hr/>	<hr/>	<hr/>
Total Revenues	3,899	3,360	7,259
Expenditures			
Police Department	<hr/> 3,899	<hr/> 3,360	<hr/> 7,259
	<hr/>	<hr/>	<hr/>
Total Expenditures	3,899	3,360	7,259
	<hr/>	<hr/>	<hr/>
Excess of Revenues Over (Under) Expenditures	-	-	-
	<hr/>	<hr/>	<hr/>
Fund Balances - Beginning of Year (Restated)	-	-	-
	<hr/>	<hr/>	<hr/>
Fund Balances - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Schedule of Findings and Recommendations

Town of Milton, Delaware
Schedule of Findings and Recommendations
September 30, 2010

Reference Number: 2010-01

Type of Finding: Material Weakness

Comprehensive Lack of Controls

In addition to the issues surrounding the errors in the Town's accounting system that supports the financial statements and an overall inability to obtain sufficient evidence to support an opinion, the audit resulted in the following findings.

Operating & Financial Practices & Procedures

The Town lacked any structure for day-to-day operations and failed to identify risks and safeguards to mitigate such risks. Even minimal controls that would help mitigate the potential for loss or misappropriation of highly liquid assets was absent and no evidence was present to demonstrate an effort to provide accurate documentation to reconstruct the Town's historical accounting records.

An additional consequence of not having an appropriate control environment relates to the inability to demonstrate compliance with the appropriate codes, contracts, ordinances, and laws. The Town failed to transcribe Executive Council Sessions, to obtain executed contracts for services rendered, and to put in place procedures that would ensure and document appropriate compliance.

Cash Balances & Procedures

The control environment was such that the propriety of cash receipts and disbursements documentation could not be determined. Additionally, Town Management failed to perform timely bank reconciliations, lacked sufficient documentation to support investments, and operated in a manner that resulted in an inability to resolve cash discrepancies.

Revenues, Receivables, Expenditures, & Payables

For all areas of the fiscal cycle, the Town lacked any semblance of operating controls. The Town had an ongoing and growing problem with inaccurate accounting records and historically made no effort to correct their accounting and control weaknesses. It was common practice for the Town to use various plug accounts¹ as a holding ground for unresolved discrepancies in the accounting system. Further, sufficient documentation was not available to reasonably conclude what, if any, entries were needed in prior periods to correct the books and opening balances for various classes of accounts.

Examples of issues arising from the poor control environment included the failure to bill some residents for water services for at least five consecutive quarters with no way to determine if the lost revenue was recovered. Also, in the Town's efforts to determine liabilities for financial presentation purposes, it could not rely on its own records.

The issues were so widespread that they included the payroll process and resulted in large supplements to the former Town Manager's salary that we were unable to substantiate. During Fiscal Year ended September 30, 2010, his earnings were 29%, or \$17,447.19, in excess of his \$60,000 contracted salary, leaving the legitimacy of the expense in question.

¹ A plug account, or suspense account, is an account that is to be used temporarily while discrepancies are analyzed and corrected.

Town of Milton, Delaware
Schedule of Findings and Recommendations
September 30, 2010

Capital Assets, Debt, Debt Service, Grants, Inventories & Equity

The Town had a long-standing history of not keeping accurate records that reached nearly a million dollars of erroneously reported assets. The Town must select its method for recording capital assets and put ongoing policies and procedures in place for future accuracy. Further, prior period adjustments will be needed to correct all accounts impacted including equity balances. Similar issues were observed during the audit relative to Debt, Debt Service, Grants, & Equity.

Recommendation

The Town should continue and expand its recent efforts to correct the control issues, develop and put into place sound operating procedures, and ensure adequate documentation.

The Town has taken steps to obtain recommendations for internal control procedures and should work to put appropriate controls in place while correcting the accounting system deficiencies that have occurred over the past several years.

Further efforts should be made to correct all books and records and related subsidiary ledgers and ensure that the trial balances generated from the system are fully supported and accurate. The practice of recording transactions to a plug account, also referred to as the Suspense Account, has been and should be discontinued indefinitely. Any future challenges with accounting errors should be addressed timely and, if needed, appropriate expertise should be engaged to assist the Town.

Management's Response

The Town has taken steps to remedy the lack of controls noted in your report, including reconciling cash and general ledger accounts on a timely basis. The trial balance is reviewed each month by the accounting staff and the Town Treasurer, allowing any unresolved differences to be immediately researched and reconciled.

Management's response can be viewed in its entirety in **Appendix A**.

Auditor's Comment

Although we commend the Town of Milton for taking steps identified in their response, the balance of our recommendations are needed to ensure timely and accurate financial reporting in an environment that provides reasonable controls to protect the Town and mitigate its risk of financial losses, mismanagement, and unexpected contingencies.

Town of Milton, Delaware
Appendix A: Auditee Response
September 30, 2010

Town of Milton

115 Federal Street
Milton, DE 19968



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Phone: 302-684-4110

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July 18, 2012

Office of Auditor of Accounts
Townsend Office Building, Suite 1
401 Federal Street
Dover, DE 19901
Attn: Kimberly J. Judy, CPA, CFE

RE: Town of Milton, Fiscal Year September 30, 2010

In response to your letter of Financial Statement of Findings, the management of the Town of Milton has taken steps to remedy the lack of controls noted in your report.

All cash accounts are reconciled to the bank statements, and the general ledger accounts on a current and timely basis. The accounting staff is working diligently to reconcile general ledger accounts with the subsidiary ledgers. The asset accounts are reviewed currently to assure that all assets recorded are owned and titled to the Town of Milton.

The trial balance is reviewed each month by the accounting staff and the Town Treasurer. Thus, any unreconciled differences may be immediately researched and reconciled.

Very truly yours,

Norman R. Lester, Councilman
Town Treasurer

